

# *The KID for PRIIPs is closer than you think*

## Get ready for impact!



*You are a finance industry player (asset managers, bankers and insurers) who manufactures financial products (e.g. Investment funds, Life-insurance products, structured products, derivatives etc.) sold to retail clients? Then you will need to provide a KID (Key Information Document) to your final clients prior to the sale, and the deadline is short.*

*Each KID will be designed according to the standards laid down by the PRIIPs regulation. The deadline for the issuance of the first KID is on 1 January 2017.*

*Considering the computation complexity, as well as the challenge related to the data collection to properly prepare the KID's, there is no room for the industry to postpone any further. Get ready!*

### **Background**

The European Commission has proposed the KIDs requirements as part of wider efforts to enhance the investor protection standards for retail clients, particularly with respect to sales and distribution. This is consistent with other regulations, such as Markets in Financial Instruments Regulation (MiFID 2).

In 2014, the European Commission has estimated the total volume of retail investment products to be worth EUR 10 trillion in Europe<sup>1</sup>. These products can be categorised under four groups: investment funds, insurance-based investment products, retail structured securities and structured term deposits.

The author of the KID is obligated to provide accurate information and avoid financial jargon (based on the template provided). Incomplete, incorrect or misleading information could lead to penalties and claims from the investors.

### **How can this affect you?**

- Financial products falling within the scope of PRIIPS can only be sold if a KID has been provided to investors in the first place.
- AIFs, structured products and derivatives sold to retail investors fall under the scope of the new regulation.
  - ➔ There's less than a year left to cope with new requirements.
- Product manufacturers need to provide the KID from 1 January 2017 to the retail investors.

<sup>1</sup>European Commission Memo on KID for PRIIPs - FAQs, 15 April 2014

## Does it concern you?

The regulation applies to all manufacturers and financial intermediaries (advisors) who distribute “packaged retail and insurance-based investment products” to be invested by retail clients. Authorities have intentionally kept a wide scope, to cover most of the market.

You have to prepare a KID if you offer one of the following products:

1. Investment funds (UCITS have a 5-year grace period of exemption);
2. Life insurance-based investment products (such as unit-linked or with-profits policies);

3. Retail structured securities (including instruments issued by securitisation institutions and corporate bonds);
4. Structured term deposits;
5. Derivatives;
6. Convertible bonds and other structured securities with embedded derivatives;
7. Pension products and annuities not recognised in the national law.

These new requirements can appear as burdensome to product manufacturers who haven't had to deal with UCITS KIID before. The others will notice similarities between the two documents,

as they both focus on readability - both must present information in a short and concise manner, using a non-technical language. Although it might seem early to start procedures for compliance, manufacturers should keep in mind that PRIIPs KID is different from UCITS KIID in many aspects, such as the methodology used for the risk indicator computation, the display of performance scenarios and new channels of contact information.

## Your challenges



### Time

You have less than one year to comply with the regulation.



### Data availability

- You need to produce fully compliant KIDs for all PRIIPs you produce;
- You have to review and adapt the organisation, processes and workflows in order to gather all the required information on your products.



### Operational process

- You'll have to produce KID on a manual or ad-hoc basis and this can impact significantly the time to market for new investment products;
- You need to implement streamlined internal processes with a robust governance structure;
- You must update the KID on a regular basis, according to market conditions;
- You need a dedicated team responsible for overseeing and documenting the lifecycle of your KIDs, as well as compiling, verifying and updating them;
- You have to setup a dedicated website containing the library of KIDs. This will facilitate the exchange of information between distributors and retail clients.



### Implementation

- With an increased focus on the risk assessment, you need technical expertise to evaluate each product's unique risks and rewards;
- You will also need to present information about the performance scenarios and costs throughout the lifetime of product;
- Explaining each product in a simple, understandable, non-technical language will require special attention so that key information is not diluted in the process.

## **How we can help**



### **1. Diagnosis**

- Our diagnosis assesses your current product offering to see if it falls within the scope of PRIIPs KID regulation. It also provides a comprehensive view of the reporting requirements per category of investment products.
- We assess your operational and internal process setup and identify gaps between your current and next operating model to produce appropriate KIDs for the future.

### **2. Recommendations**

- We help you define clear and pragmatic solutions to address the gaps identified during the diagnosis phase.
- We cover the following aspects:
  - Where and how to gather all the information required to produce the KID;
  - How to compute the risk indicators and the performance scenarios;
  - How to correctly capture all the relevant costs associated with the product;
  - How to design the required IT infrastructure;
  - What level of resources and investment will be required initially and on an ongoing basis?

### **3. Action Plan**

- Our action plan specifies the actions you need to take and gives you a timeline to make sure you're fully compliant and ready from an operational stand point.
- We rank these actions according to their levels of priority and implementation.

### **4. Implementation and support**

- We design, build and deliver an end-to-end solution through:
  - Identification, selection and implementation of data analytics for the technical part of the KID (through our in-house set of risk management tools);
  - Definition of models and systems required to gather data;
  - Data quality review;
  - Test and implementation;
  - Support and change management.

### **5. Third party review/Validation**

- We combine the expertise of both our Regulatory and Risk Management teams to review and validate your company's proposition when it comes to KID preparation and provide assurance beyond financial audit.
- We provide tailored solutions under the Third Party Assurance umbrella, using reporting standards (i.e. ISAE 3000, agreed upon procedures and customised attestations).
- Our wide range of services enables you to prove to your clients that you provide reliable information and operate effectively within a well-controlled environment.

## Why PwC Luxembourg?

PwC Luxembourg ([www.pwc.lu](http://www.pwc.lu)) is the largest professional services firm in Luxembourg with 2,600 people employed from 58 different countries. PwC Luxembourg provides audit, tax and advisory services including management consulting, transaction, financing and regulatory advice. The firm provides advice to a wide variety of clients from local and middle market entrepreneurs to large multinational companies operating from Luxembourg and the Greater Region. The firm helps its clients create the value they are looking for by contributing to the smooth operation of the capital markets and providing advice through an industry-focused approach.

The PwC global network is the largest provider of professional services in the audit, tax and management consultancy sectors. We are a network of independent firms based in 157 countries and employing over 208,000 people. Talk to us about your concerns and find out more by visiting us at [www.pwc.com](http://www.pwc.com) and [www.pwc.lu](http://www.pwc.lu).



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